# HOUSING MARKET OUTLOOK
## London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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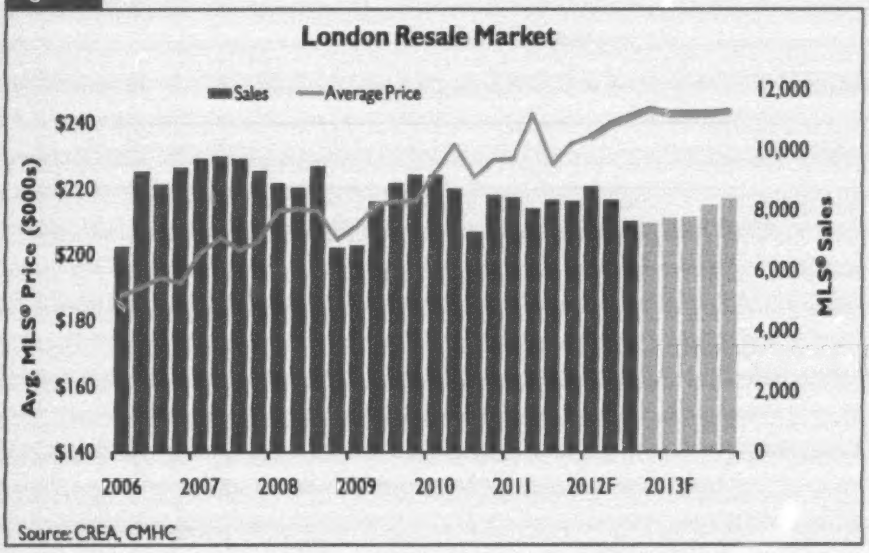
## Market at a Glance

- Resale activity will slow slightly although sales and average price performance in the London CMA will be slightly stronger than in Ontario as a whole.
- The pace of starts is expected to slow slightly overall although single-detached starts will remain on par with the 2012 level.
- Improving labour market conditions in the second half of 2013 will be supportive of housing demand.

Figure 1




* The forecasts included in this document are based on information available as of October 17, 2012.

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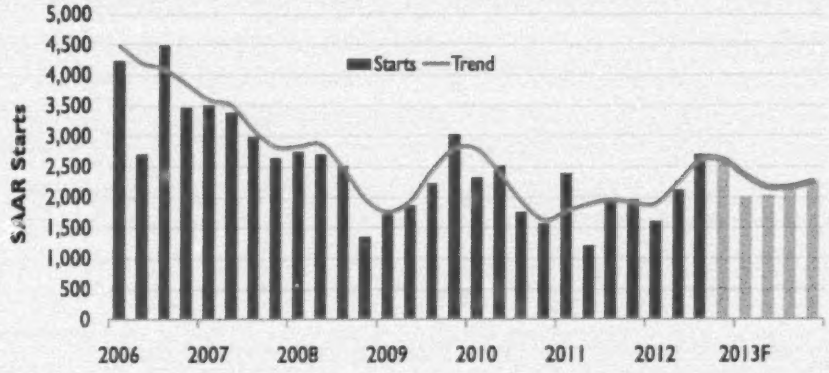
## Resale Market

### A balanced market

MLS® sales in 2012 are set to end the year at 8,140 sales; 2013 is poised for a slight softening of sales to 8,000 units. Sales slowed through 2012 after a very strong first quarter. This slower pace of sales is expected to extend into mid-2013 and then slowly start to increase on the back of strengthened economic growth and in turn job creation. The general level of affordability for the resale market in London will also help to help keep price growth and sales performance in London slightly stronger than in Ontario as a whole. Nevertheless, modest job growth and more restrictive mortgage rules will have a moderating influence on sales in the intermediate term.

The resale market has continued to function in balanced territory throughout 2012. Listings in 2013 are expected to come to market at a pace that will keep the market in balance. A market in balance will limit price appreciation in 2013 to less than one per cent. Average MLS® prices for 2012 as a whole are trending towards a result of $241,500, or 3.3 per cent growth over last year. Into 2013 sales will start the year lower than they did in 2012 and then trend upwards. This slower start to sales in conjunction with slower wage growth in a balanced market environment will lead to lower price appreciation than was experienced in 2012. Job gains in 2013 on average are expected to be in sectors with lower compensation rates. Across Ontario employment in the public sector and health care is expected to be limited as all levels of government grapple with austerity measures.

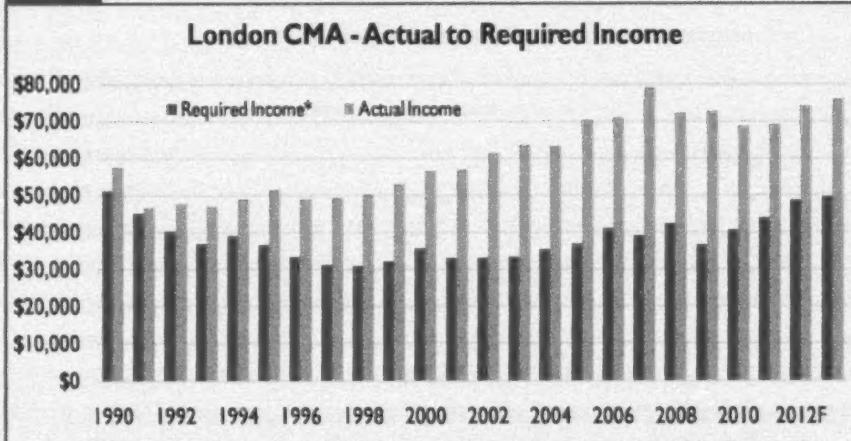
Figure 2




Source: CMHC *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

The rising cost of housing, while a challenge in many markets, will not be a significant impediment to sales or price growth in the London market. Average actual incomes in 2013 for all households in the CMA will remain well above the income required to service the mortgage on the average MLS® transaction. With required income calculated using the 32% GDS (gross debt service) threshold, the relative positions of actual and required incomes will minimize the impact of the new mortgage rules over the forecast horizon.

Figure 3




Sources: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

## New Home Market

### Starts heading to be in line with the rate of household formation

Starts in 2012 and 2013 are set to be slightly ahead of the rate of household formation at 2,270 and 2,100 respectively. Starts in 2012 have been bolstered by a strong level of apartment starts, which will yield a year-end result higher than the two previous years. Apartment starts through 2012 have been strengthened by growth in single person households between the 2006 and 2011 census counts and an improving employment position for younger households. The trend of an increasing number of single person households and improving labour market conditions will lead to another strong year of apartment starts in 2013, as compared to 2010 and 2011. The number of apartment starts in 2013 will be lower than the 2012 total as units started in 2012 are completed and some of the demand is met for new rental and condo units.

Single-detached starts can be expected to continue to dominate the marketplace. The number of single-detached starts will be marginally above the 2012 result as London is a relatively inexpensive market. Growth in high-paying employment through 2012 in areas such as public administration and the professional, scientific and technical sector will help to keep sales at their 2012 level into 2013.

With the level of new home starts slowly coming down we can expect this trend of moderation to continue so that starts will become more in line with the pace of household formation. Housing starts since 1996 have seen a significant amount of volatility, in part responding to the rate of household formation. Starts earlier in the period increased to meet pent-up demand and then slowed to align more closely with the rate of household formation. At present, the pace of starts is more closely correlated with the average 2,022 households that were formed annually between 2006 and 2011 according to the most recent Census data.

## Local Economy

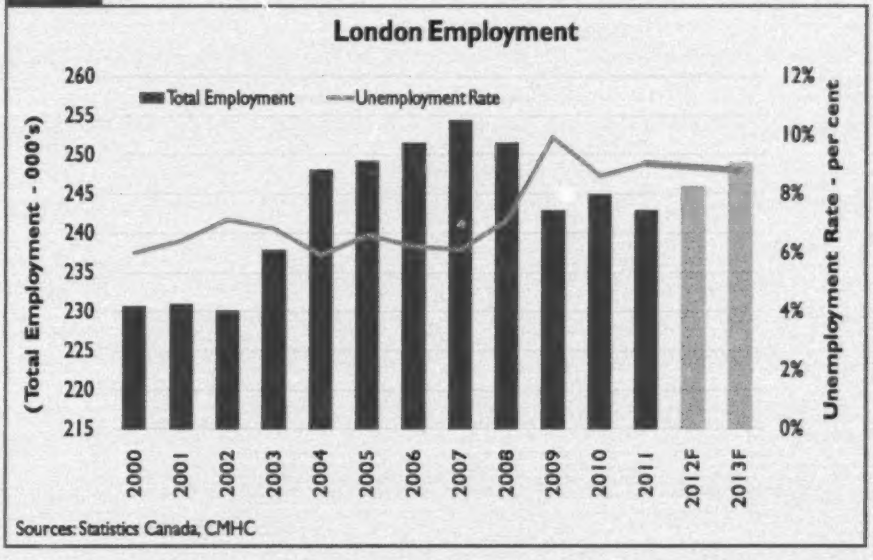
### Some bright spots amid slower growth

London has benefited through 2012 from strong growth in higher-paying jobs as well as positions in the retail sector. As the recovery in the United States is expected to continue to gain strength through 2013, it is expected that parts of Southern Ontario, including London, will benefit more quickly than Ontario as a whole. As previously noted, there is little growth to be expected in publically funded positions. Employment growth will come as a mix of service and manufacturing positions, undoubtedly to include some positions that move from part to full-time.

Growth through 2012 in the labour force participation rate, those looking for work or employed as a proportion of the population, for 25-44 year olds signals their optimism for job growth prospects going into 2013. The number of people employed in the CMA will continue to increase into 2013 as the US and Ontario economies continue to recover, however, more people will be looking for work which will limit declines in the unemployment rate.

Strong commodity prices will continue to contribute to a net inter-provincial out-migration that is a drain on the labour force in London, especially for 25-44 year olds. However, intra-

Figure 4




Sources: Statistics Canada, CMHC

provincial and international migration more than offset those outflows. Of late, immigrants coming to London have brought larger families than have immigrants to Hamilton or Kitchener-Waterloo, an important fact as larger families will contribute more to the local economy on an expenditure basis than smaller ones.

## Mortgage Rate Outlook

### Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

| Forecast Summary<br>London CMA<br>Fall 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012f | % chg | 2013f | % chg |
| **Resale Market** | | | | | | | |
| MLS® Sales | 8,314 | 8,389 | 8,272 | 8,140 | -1.6 | 8,000 | -1.7 |
| MLS® New Listings | 14,795 | 16,171 | 16,947 | 15,960 | -5.8 | 15,390 | -3.6 |
| MLS® Average Price ($) | 214,510 | 228,114 | 233,731 | 241,500 | 3.3 | 242,950 | 0.6 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,056 | 1,461 | 1,176 | 1,280 | 8.8 | 1,300 | 1.6 |
| Multiples | 1,112 | 618 | 572 | 990 | 73.1 | 805 | -18.7 |
| Semi-Detached | 12 | 20 | 12 | 35 | 191.7 | 25 | -28.6 |
| Row/Townhouse | 169 | 163 | 177 | 185 | 4.5 | 180 | -2.7 |
| Apartments | 931 | 435 | 383 | 770 | 101.0 | 600 | -22.1 |
| Starts - Total | 2,168 | 2,079 | 1,748 | 2,270 | 29.9 | 2,105 | -7.3 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 341,898 | 347,634 | 347,430 | 352,000 | 1.3 | 356,000 | 1.1 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 307,900 | 320,000 | 325,000 | 329,000 | 1.2 | 332,500 | 1.1 |
| New Housing Price Index (% chg.) | 1.4 | 2.7 | 0.4 | 1.3 | - | 1.2 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 5.0 | 5.0 | 3.8 | 3.3 | -0.5 | 3.1 | -0.2 |
| Two-bedroom Average Rent (October) ($) | 896 | 869 | 881 | 910 | - | 930 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 4.02 | 3.49 | 3.52 | 3.37 | - | 3.78 | - |
| Mortgage Rate (5 year) (%) | 5.63 | 5.61 | 5.37 | 5.26 | - | 5.37 | - |
| Annual Employment Level | 242,800 | 244,900 | 242,900 | 247,000 | 1.7 | 250,000 | 1.2 |
| Employment Growth (%) | -3.5 | 0.9 | -0.8 | 1.7 | - | 1.2 | - |
| Unemployment rate (%) | 9.9 | 8.6 | 9.0 | 8.9 | - | 8.6 | - |
| Net Migration | 1,717 | 2,836 | 2,606 | 2,730 | 4.8 | 2,775 | 1.6 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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